

FIRE PENSION BOARD MINUTES
Wednesday, August 21, 2019 – 10:00 a.m.
City Hall, Council Chambers, Vero Beach, Florida

PRESENT: Charles Zokvic, Chairman; Henry Losey, Secretary/Treasurer; Member: Kent Middleton **Also Present:** Records Retention Specialist, Heather McCarty

Excused Absence: Duane Bluemke

1. CALL TO ORDER

The Chairman called the meeting to order at 10:00 a.m.

2. AGENDA ADDITIONS, DELETIONS AND ADOPTION

None

3. APPROVAL OF MINUTES

A) May 15, 2019

Mr. Losey made a motion to approve the May 15, 2019 minutes. Mr. Middleton seconded the motion and it passed unanimously.

4. PUBLIC COMMENT

None

5. QUARTERLY REPORTS

A) Highland Capital Management

Mr. Todd Wishnia, with Highland Capital, talked about the second quarter and its effects on bonds and equities. He said that consumer spending has been strong and retail spending is up. He briefly went through their Investment Review Report for the period ending June 30, 2019 (on file in the City Clerk's office). He went over page 8, Total Return Summary, pointing out that 10 of the 11 sectors were up, with energy being the only negative sector for the quarter. He went over the charts on page 9, Performance Returns for Various Periods and page 10, Domestic Equity Sector Allocation vs. R1000V.

Mr. West asked looking at all the factors that drive stock selection, if there are momentum-orientated indicators. With regards to energy being overweight to the sector, he sees negative momentum. Mr. Wishnia agreed. He explained they find value there and they are looking for those stocks that are down and underpriced that they feel will comeback. He said energy tends to have nice strong dividends. This fiscal year does look kind of beaten up and that is from their position in health care. They are trying to

make up ground there as the fiscal year comes to an end. He pointed out they had a very nice quarter with International. He said fixed income and riskier assets drove the quarter for the market and without that ability to have those BBB bonds, they were forced to add more mortgages. He reviewed page 14, Fixed Income Sector Allocation, noting that for Fixed Income, they are up 2% so far this quarter.

Mr. West said the last couple of quarters, they have indicated that they have moved to a more conservative posture with the structure. He asked if they are buying into the yield curve inversion. Mr. Wishnia talked about the yield curve inversion and the flight to quality. He said they don't think the market is going to come down, or that it is all doom and gloom. He said they are not going to get the kind of returns they have been getting the past couple years, but they think it will be steady and the returns will be decent.

Mr. Wishnia said they had asked about Jones Trading last quarter and they have since restructured that deal.

Mr. Zokvic commented that the last time they had a recession, the banks were a major cause of it. He asked if there is another, are the banks going to be in better shape. Mr. Wishnia answered yes, he thought so and that they have prepared. He added that he does not think the banks would be the cause of this.

Mr. West talked about how he thinks they can make a fair argument that the center of destruction this go around might be in debt and publicly traded debt.

- B) Salem Trust – Information Only**
 - 1. Class Action Report**
 - 2. Quarterly Report Summary**

Mr. Zokvic referred to the items that Mrs. Karen Russo, with Salem Trust, had sent them to review since she was unable to attend today's meeting. He noted that the Class Action Report for the period April 1, 2019 through June 30, 2019 (on file in the City Clerk's office) showed their plan received in class action settlements from Pfizer Celebrex in the amount of \$503.10, Duke Energy for \$43.32, and Bank of America for \$294.48.

C) AndCo Consulting

Mr. Dave West, with AndCo Consulting, commented that he is the bearer of good news today. He said the economy in the U.S. is pretty good. He commented that a lot of people are questioning why the Fed did what they did during the third quarter. He said the economy does have a good solid foundation still. He referred to their Investment Performance Review for the period ending June 30, 2019 (on file in the City Clerk's office). He went over page 9, Market Rate and Yield Curve Comparison, and page 12, Asset allocation vs. Target Allocation. He said they are overweight with their domestic equities, which is a good place to be. He said they felt it was imperative that they stay overweight in the potentially highest returning areas if they have any chance of meeting

the actuarial assumption. He explained they remain underweight in international and have not pulled the trigger to allocate more at this time or in the investment grade fixed income. He went to page 2, Major Market Index Performance, pointing out that investment grade bonds returned almost 8%. He reviewed the bottom line on pages 19 and 20, Comparative Performance Trailing Returns. He reported that the total fund net was up this quarter almost 3.5% and the fiscal year to date (FYTD) was at about half the benchmark. He commented that their peer group rankings dropped a little bit because of the FYTD number. He went over the numbers for the equity portion of their portfolio. He pointed out that the PIMCO fund was ranked number one (1) in the three (3), five (5), and seven (7) year returns, as well as since inception. He said the Intercontinental real estate fund continues to deliver and is annualizing right around 8.3%. He said all in, it was a good quarter, even though they are not closer to the benchmark for their FYTD.

Mr. West reviewed the cash flow on page 16, Financial Reconciliation Fiscal Year to Date. He reported they opened on October 1, 2019 with \$7,943,359 and ended on June 30, 2019 with \$7,488,579. He said he remains optimistic, but realistically, they are going to be hard pressed to make their rate of return number with all the volatility they have been experiencing. He said they have no action recommendations today. They are recommending that the State money funds remain in the R&D account and go towards member benefit distributions.

Mr. Zokvic reported the amount the City will receive from the State for their first portion of the 2018 Premium Tax Distribution was \$133,271.94.

Mr. West referred to the draft of the letter of direction to Salem Trust that he handed out (on file in the City Clerk's office). They made the adjustment to bring up the working balance and update the names to AndCo and Highland Capital. He said they recommend raising their operating funds to their baseline number, which he thinks would be the optimal cash balance to maintain there. He explained their fund is a complete cash outlay and with the increasing levels of market volatility, he thinks it would be prudent to raise that operating cash amount. This gives them a better balance and also brings in a small touch of a conservative element to the portfolio in that they are maintaining a higher level of cash. He said with short-term rates up, they could actually earn 2.5% on that cash, so it helps justify holding those funds.

Mr. Losey made motion to approve the updated letter as presented by their Consultant. Mr. Middleton seconded the motion and it passed unanimously.

Mr. West referred to the second letter, which is the letter of direction that is very old for the trading commissions. They are still in the process of working out the optimal recapture process. They would like to introduce a couple of different broker options for Highland to trade through. They think they might be able to negotiate a little better retention level with those directed brokers. He said it is a work in process and they will need to work closely with Highland. They are not directing them to do anything, but they want to have this out there so they can recapture any trade amounts. They should have

this completely resolved with a definitive letter by their next meeting. The Board was in agreement with their Consultant's suggestion.

6. NEW BUSINESS

Mr. Zokvic wanted to make sure they all knew about the State conference that is in Orlando in October and received a copy of the email (on file in the City Clerk's office)

7. OLD BUSINESS

None

8. CHAIRMAN'S MATTERS

A) Increase in Health Insurance

Mr. Zokvic said that they received a letter from the County advising them that they are increasing the health insurance amounts. His is increasing about \$117 a month. Their letter said if they do nothing, they would be put in the gold plan. He said there is a silver plan and a Medicare plan. He said Salem Trust is aware that there are changes coming. He said hopefully Salem Trust and Mrs. Ann Rankin, with Indian River County, are working it out so that the first of October, the right amount would be taken out of their checks without any delays.

B) Discussion on School Reimbursements

Mr. Zokvic reminded them that they need to stick to what they have done in the past with meal reimbursements and not overspend when they are away at conferences. He said he advised the City Clerk's office that any meal reimbursement that is turned in that can't be justified will then be paid at the per diem rate.

Mr. Middleton questioned what if you order a meal at a restaurant and it is expensive.

Mr. Zokvic pointed out that there is a choice in what to order and where you go. He said their Board doesn't require them to follow the per diem rates, but if the Board members can't control the amount of money they spend on their meals, then they are going to have to be paid the per diem rate. He emphasized that they are a closed plan and need to watch their expenses. He pointed out that they have had this discussion before.

Mr. West added that at many of their conferences held in Orlando eating has gotten very expensive.

Mr. Middleton said that at their last conference in Fort Lauderdale, the hotel's restaurant was very expensive and they didn't have a choice.

Mr. Zokvic said the per diem rates in Fort Lauderdale were \$66 for the day, \$16 for breakfast, \$17 for lunch, and \$28 for dinner.

Mr. Middleton pointed out that they couldn't have eaten a breakfast for \$16 at the hotel they were at. Mr. Losey said that breakfast and lunches for the attendee were included. He commented that he has never turned in a meal for Sunday night.

C) Klausner Memorandum re: Cyberattacks and Cyber Liability Insurance Coverage

Mr. Zokvic referred to the Klausner memo (on file in the City Clerk's office). He said he hasn't had a chance to see if the City has cyber insurance. He asked Mr. West and Mr. Wishnia if they have heard other Boards discussing it. Mr. West said there have been several Florida cities hit and they had to pay ransoms. He said there have been discussions about it and it is much more common than he thought. He said it is a very big topic right now and Boards are looking into what coverage the City has and if they need supplemental coverage as a Board.

Mr. Losey said for us it would be something to do with Salem Trust. Mr. West said that Salem Trust does have cyber protection. Mr. Losey asked if they are subject to hacking.

Mr. West said it wouldn't impact them because they are not in possession of critical information. Their question is what is the appropriate level of coverage for their custodian and also the City.

Mr. Losey talked about how he was hacked. He said he thought that Salem Trust was their weakest point, but also the City because they are becoming prime areas for it and some cities have had to pay to get information stuff back. Mr. Zokvic commented that Salem Trust has been progressive on protecting their information by limiting access to their system.

Mr. Losey made a motion to give the Chairman the authority to work on finding out what the City's liability insurance is and have that information for their November meeting. The motion passed unanimously.

9. MEMBER'S MATTERS

None

10. ADJOURNMENT

Today's meeting adjourned at 11:04 a.m.

/hm